

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



**FISCAL MEMORANDUM**

**HB 3601 – SB 3692**

April 14, 2010

**SUMMARY OF AMENDMENT (016995):** Deletes Section 3 of original bill and replaces it with language that (1) extends authorization by one year (from June 30, 2011 to June 30, 2012) for the State Funding Board to sell general obligation bonds at private sale upon such terms and conditions as it shall determine, (2) extends authorization by two years (from June 30, 2010 to June 30, 2012) for counties with populations greater than 307,000, or the municipalities that are the county seats of such counties, to sell general obligation bonds at negotiated sale upon such terms and conditions as it shall determine, and (3) establishes that the effective interest rate on Build America Bonds (BABs), whether sold by the state, counties with populations greater than 307,000, or the county seats of such counties, be based on the lowest taxable interest rate bid less the federal subsidy, or in the case of a negotiated sale, the taxable interest rate negotiated less the federal tax subsidy.

**FISCAL IMPACT OF ORIGINAL BILL:**

Increase State Expenditures – Not Significant

**FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:**

**Decrease State Expenditures –**

**\$21,000 in annual interest expense for each \$1,000,000 of Build America Bonds issued over life of the bonds**

**Decrease Local Expenditures –**

**\$24,500 in annual interest expense for each \$1,000,000 of Build America Bonds issued over life of the bonds.**

**Increase Federal Expenditures –**

**\$21,000 in annual interest expense for each \$1,000,000 of Build America Bonds issued by the State of Tennessee over life of the bonds**

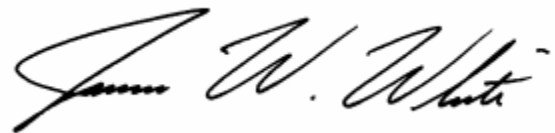
**\$24,500 in annual interest expense for each \$1,000,000 of Build America Bonds issued by local government entities over life of the bonds**

Assumptions applied to amendment:

- According to the Comptroller, there would be a decrease in interest expense for bonds sold as BABs ranging from 28 percent to 45 percent; public purpose bonds have a subsidy rate of 35 percent.
- The average rate of subsidy from the federal government is estimated to be 35 percent of interest expense.
- The average coupon rate for bonds issued by the state and local government entities is estimated to be six and seven percent respectively.
- Interest expense on bonds issued by state government is estimated to be \$60,000 per year for each \$1,000,000 of bonds issued ( $\$1,000,000 \text{ bonds} \times 6.0\% \text{ coupon rate} = \$60,000$ ).
- The federal subsidy for each \$1,000,000 of BABs issued by the state is estimated to be \$21,000 per year ( $\$60,000 \text{ interest expense} \times 35\% \text{ subsidy rate} = \$21,000$ ); the remaining \$39,000 of interest expense (or the remaining 65% share) will be an obligation of the state.
- Interest expense on bonds issued by local government entities is estimated to be \$70,000 per year for each \$1,000,000 of bonds issued ( $\$1,000,000 \text{ bonds} \times 7.0\% \text{ coupon rate} = \$70,000$ ).
- The federal subsidy for each \$1,000,000 of BABs issued by local government entities is estimated to be \$24,500 per year ( $\$70,000 \text{ interest expense} \times 35\% \text{ subsidy rate} = \$24,500$ ); the remaining \$45,500 of interest expense (or the remaining 65% share) will be an obligation of the respective local government entity.
- Sections 1 and 2 of the original bill remain part of the bill as amended. These provisions revise the composition of the State Funding Board. Based on responses from the Comptroller of the Treasury and the Department of State, any increase to state expenditures is estimated as not significant.

**CERTIFICATION:**

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

/rnc